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Message Text

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ACTION EB-08

INFO OCT-01 ARA-10 EA-10 ISO-00 INT-05 AID-05 CIAE-00
COME-00 FRB-03 INR-10 NSAE-00 USIA-06 TRSE-00
XMB-02 OPIC-03 SP-02 LAB-04 SIL-01 OMB-01 NSC-05
SS-15 STR-07 CEA-01 DOE-11 SOE-02 DODE-00 PM-05
H-01 L-03 PA-01 GSA-02 IO-13 ITC-01 /138 W
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R 151900Z MAR 78
FM AMEMBASSY LA PAZ
TO SECSTATE WASHDC 9895
INFO AMEMBASSY BANGKOK
AMEMBASSY JAKARTA
AMEMBASSY KUALA LUMPUR
AMEMBASSY LIMA
AMEMBASSY QUITO
AMEMBASSY SANTIAGO

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E.O. 11652: N/A
TAGS: ETRD, BL
SUBJECT: MEETING WITH MINISTER OF MINES REGARDING US
TIN SALES POLICY

1. ON THE MORNING OF MARCH 14, ACCOMPANIED BY REGIONAL RESOURCES ATTACHE, I MET WITH MINISTER OF MINES GENERAL ERNESTO CAMACHO AND THE NEW UNDER SECRETARY, ALVARO UGALDE, TO DISCUSS THE UDALL-DECOCINI BILL FOR SALE OF US STOCKPILED TIN AND THE PRUCHASE OF COPPER. CAMACHO AND UGALDE MADE THE FOLLOWING POINTS:
A. THEY UNDERSTAND THE US'S NEED TO SELL TIN BECAUSE OF THE CONSIDERABLE SHORTAGE IN THE WORLD MARKET BUT WERE DEEPLY TROUBLED BY THE TIMING AND THE NEGATIVE IMPACT BOTH ECONOMICALLY AND POLITICALLY THAT IT WOULD HAVE IN BOLIVIA. THEY WERE ALSO CONCERNED ABOUT ITS LINK WITH COPPER SALES AND
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THE LACK OF FLEXIBILITY THIS MAY ENTAIL.

B. BOLIVIA IS GOING THROUGH A DIFFICULT PRE-ELECTRAL PROCESS ON ITS WAY TO A RETURN TO DEMOCRACY AND THE ARMED FORCES WISHES TO WITHDRAW FROM GOVERNING THE COUNTRY. HOWEVER, THE MINISTER IS WORRIED ABOUT WHAT PEREDA MIGHT DO AS A POLITICAL REACTION TO THE US ANNOUNCEMENT. OF EVEN GREATER

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CONCERN IS WHAT USE THE EXTREME LEFT WILL MAKE OF US TIN SALES. ALREADY IT SEEMS TO BE RESULTING IN A UNIFICATION OF THE EXTREME LEFT. JUAN LECHIN OQUENDO IS USING THE ISSUE AS A MEANS TO BADGER THE GOVERNMENT AND STIR UP THE MINERS WITH THE SPECTRE THAT MINERS' SALARIES MAY FALL DUE TO THE CERTAIN DROP IN TIN PRICES.

C. THERE IS CURRENTLY A SERIOUS SQUEEZE ON COMIBOL CAUSED, ON THE ONE HAND, BY THE PROSPECT OF A DROPPING PRICE DUE TO US TIN SALES AND, ON THE OTHER, BY RISING COSTS AND PRODUCTION PROBLEMS CAUSED BY SABOTAGE IN THE MINES ORIGINATED BY LEFT WING MINING UNION LEADERS. COMIBOL'S FINANCIAL BUDGET FOR 1978 WAS CALCULATED AT A BREAK-EVEN POINT BASED ON TIN PRICE OF $5.35 PER POUND. (I DOUBT THAT THE PRICE REQUIRED FOR BREAKEVEN ON A CASH FLOW BASIS IS REALLY QUITE THAT HIGH.)

D. THE CENTRAL GOVERNMENT BUDGET AND BALANCE OF PAYMENTS COULD BE SERIOUSLY AFFECTED BY THE DROP IN TIN PRICES THIS YEAR. PUBLIC SECTOR INVESTMENT AND IMPORTS WOULD PROBABLY HAVE TO BE CUT FURTHER, PLACING A GREATER POLITICAL BURDEN NOT ONLY ON THE PRESENT GOVERNMENT BUT ON THE WINNER OF THE JULY 9 ELECTIONS.

E. THE ANNOUNCED US POLICY OF SELLING TIN AND BUYING COPPER HURTS BOLIVIA AND HELPS CHILE. THIS COMES AT A TIME WHEN RELATIONS WITH CHILE DUE TO THE LETELIER AFFAIR ARE DETERIORATING
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AND RELATIONS WITH BOLIVIA ARE CLOSE, FRIENDLY AND IMPROVING, DUE TO THE BOLIVIAN DEMOCRATIZATION PROCESS. WHY DOES THE US PUNISH ITS FRIENDS AND REWARD ITS OPPONENTS? HOW CAN THE MINISTER EXPLAIN THIS TO THE MINEWORKER?

F. BOTH CAMACHO AND UGALDE EXPRESSED CONCERN FOR THE REGIONAL SECURITY SITUATION OF BOLIVIA AND EVEN ITS SURVIVAL AS A NATION. THIS WAS LINKED TO THE POTENTIAL FOR CONFLICT IN 1979--100TH ANNIVERSARY OF THE WAR OF THE PACIFIC--AND TO THE POTENTIAL ITS NEIGHBORS HAVE TO TAKE ADVANTAGE OF A POLITICALLY AND ECONOMICALLY WEAKENED BOLIVIA IF THINGS GO BADLY IN THE LECTORAL PROCESS THIS YEAR.

2. I REVIEWED WITH CAMACHO THE FULL ECONOMIC CASE FOR US TIN SALES AS I HAD WITH BANZER. I NOTED THAT THE HISTORICAL COINCIDENCE OF OUR NEED TO SELL TIN AND BOLIVIA'S ELECTORAL PROCESS WAS UNFORTUNATE, BUT ONE OVER WHICH WE DID NOT HAVE COMPLETE CONTROL. AS TO WHETHER OUR ECONOMIC ANALYSIS OF THE TIN SITUATION WAS ACCURATE, I SAID THAT PRICE DEVELOPMENTS IN THE NEAR TERM SHOULD GIVE US MORE EVIDENCE. I FELT THAT BOLIVIA'S PARTICULAR SITUATION WAS RECOGNIZED AND THAT WAS UNDOUBTEDLY WHY THE PRESIDENT HAD OFFERED BILATERAL CONSULATIONS. WE WOULD

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WANT TO TAKE BOLIVIA'S SITUATION INTO ACCOUNT IN THE ELABORATION
OF OUR SALES PROGRAM.

3. AS TO REWARDING OPPONENTS (CHILE), I EXPLAINED THAT NEAR
US SELF-SUFFICIENCY IN COPPER, THE PARTIAL INSULATION OF THE
US DOMESTIC PRICE, AND EXCESS CAPACITY IN THE US COPPER
INDUSTRY ALL MEANT THAT IT WOULD BE OVERWHELMINGLY THE US
COPPER INDUSTRY THAT BENEFITTED FROM GSA PURCHASES.
THERE WAS CERTAINLY NO INTENT TO STRENGTHEN BOLIVIA'S REGIONAL
RIVALS (CHILE AND PERU) AND WEAKEN BOLIVIA.

4. I EXPLAINED THAT THE CARTER ADMINISTRATION WAS VERY CONSCIOUS
OF BOLIVIA'S DEPENDENCE ON TIN AND OF ITS DELICATE POLITICAL
AND ECONOMIC SITUATION THIS YEAR. I RECOMMENDED THAT THE GOB
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BEGIN CONSULTATIONS THROUGH AMBASSADOR ITURRALDE IN WASHINGTON
PRIOR TO THE APRIL ITC MEETING. I PROMISED THAT THE EMBASSY
WOULD BE IN CLOSE CONTACT WITH THE MINISTRY AND WILLING TO
HELP IN ANY WAY WE COULD TO REACH A MUTUALLY SATISFACTORY
SOLUTION TO THE NEED OF THE USG TO SELL TIN AND BOLIVIA'S
VULNERABILITY IN THE FACE OF A FALLING TIN PRICE.

5. FINALLY, I TOLD CAMACHO THAT I TOO WAS UNSURE AS TO HOW
THE LINKAGE OF COPPER PURCHASES AND TIN
WOULD WORK OUT AND HAD SOUGHT CLARIFICATION. I ASSUMED
WE WOULD MEET OUR OBLIGATION TO SELL TIN AT A PACE DETERMINED
BY THE NEEDS OF THE TIN MARKET, NOT THE COPPER MARKET.
BOEKER

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